

## Message Text

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ORIGIN TRSE-00

INFO OCT-01 NEA-10 ISO-00 L-03 H-02 EB-08 /024 R

TX-387

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R 161521Z AUG 77  
FM SECSTATE WASHDC  
TO AMEMBASSY CAIRO

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E.O. 11652:NA TAGS: EFIN

SUBJECT: INCOME TAX TREATY

1. AS EMBASSY NO DOUBT AWARE, U.S.-EGYPT AND U.S.-  
ISRAEL INCOME TAX TREATIES NOT TAKEN UP BY SENATE  
FOREIGN RELATIONS COMMITTEE AT JULY 19-20 HEARINGS,  
AT TREASURY REQUEST, TO PROVIDE TIME TO SETTLE TECHNICAL  
QUESTIONS IN BOTH TREATIES PRIOR TO SENATE CONSIDERATION.

2. PROBLEM WITH EGYPT TREATY RELATES TO TREATMENT OF  
DIVIDENDS PAID OUT OF TAX HOLIDAY PROFITS. EMBASSY  
REQUESTED TO SEEK CONFIRMATION FROM EGYPTIAN OFFICIALS  
(PRESUMABLY HABIB, UNDERSECRETARY FOR TAXATION, MIN FIN)  
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THAT U.S. UNDERSTANDING DESCRIBED BELOW IS CORRECT.  
IF CONFIRMED, TREASURY PERCEIVES NO PROBLEM IN MOVING  
AHEAD WITH RATIFICATION PROCEDURES.

3. CAN EGYPT CONFIRM THAT WHEN AN EGYPTIAN CORPORATION  
PAYS A DIVIDEND TO A U.S. INVESTOR OUT OF PROFITS  
EARNED DURING A TAX HOLIDAY PERIOD, THE PROFITS WILL NOT  
BE SUBJECT TO THE EGYPTIAN TAX ON INDUSTRIAL AND  
COMMERCIAL PROFITS, BUT THE DIVIDEND WILL, UNDER ARTICLE

11(10) OF THE TREATY, BE SUBJECT TO THE TAX ON INCOME FROM MOVABLE CAPITAL? FOR EXAMPLE, AN EGYPTIAN SUBSIDIARY OF A U.S. PARENT EARNS 100 IN YEAR 1 OF THE TAX HOLIDAY PERIOD. NO DIVIDEND IS PAID IN THAT YEAR, AND THEREFORE,

BY THE TERMS OF THE TREATY, THE INCOME OF THE CORPORATION IS NOT SUBJECT TO TAX. IN YEAR 5 (LAST YEAR OF TAX HOLIDAY PERIOD) OR IN YEAR 6 (AFTER EXPIRATION OF TAX HOLIDAY PERIOD), EGYPTIAN CORPORATION PAYS DIVIDEND OF 100 WHICH IS PAID OUT OF PREVIOUSLY EXEMPT TAX HOLIDAY PROFITS. UNDER TREASURY UNDERSTANDING, NO INDUSTRIAL AND COMMERCIAL PROFITS TAX WOULD BE PAYABLE IN RESPECT OF THE PROFITS UNDERLYING THE DIVIDEND, BUT THE DIVIDEND OF 100 WOULD BE SUBJECT TO TAX ON INCOME FROM MOVABLE CAPITAL OF APPROXIMATELY 40, LEAVING INVESTOR WITH NET DIVIDEND OF 60.

4. U.S. TREASURY READS ARTICLE 11(10) AS PROVIDING RESULT DESCRIBED IN (3) ABOVE. THAT PARAGRAPH PROVIDES THAT PROFITS OF AN EGYPTIAN CORPORATION, INCLUDING DISTRIBUTION OUT OF SUCH PROFITS, WILL BENEFIT FROM EGYPTIAN TAX EXEMPTIONS AS LONG AS THEY ARE NOT SUBJECT TO U.S. TAX. WHEN, HOWEVER, THE TO U.S. TAX, THE DIVI ALL BE TAXED  
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IN EGYPT. IN -.IS MEANS THAT ONLY THE TAX ON MOVABLE CAPITAL APPLIES SINCE THIS IS THE ONLY TAX APPLICABLE TO DIVIDENDS.

5. WOULD APPRECIATE PROMPT TELEGRAPHIC CONFIRMATION OF UNDERSTANDING SO THAT FOREIGN RELATIONS COMIITTEE CAN BE ADVISED THAT TREASURY PREPARED TO PROCEED WITH HEARINGS. (CHAIRMAN HAS EXPRESSED INTEREST IN MOVING QUICKLY ON BOTH TREATIES.) THIS SHOULD BE FOLLOWED ASAP BY LETTER FROM HABIB OR OTHER SENIOR EGYPTIAN OFFICIAL RESTATING UNDERSTANDING IN PARA 3, ABOVE, AND CONFIRMING THAT THIS IS CORRECT.

6. IF TREASURY UNDERSTANDING CANNOT BE CONFIRMED, TIME-CONSUMING FURTHER NEGOTIATIONS WILL BE REQUIRED. VANCE

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## Message Attributes

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**To:** CAIRO  
**Type:** TE  
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**Review Markings:**  
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